



Sirma Group

Sofia, 2018

# Annual Individual Report

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of the activity of "Sirma Group Holding" JSC according to  
Annex N10 of Ordinance 2 to Article 32, Paragraph 1, Item 2,  
Article 35, Paragraph 1, Item 2, Article 41, Paragraph 1, Item 2  
for the period 01.01.2017 – 31.12.2017

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# 1/ STATEMENT BY THE BOARD OF DIRECTORS OF SIRMA GROUP HOLDING JSC

The present annual individual report of the management of SIRMA GROUP HOLDING JSC covers the period, ending on 31 December 2017 and was prepared in accordance with the provisions of Article 33 of the Accountancy Act and Art. 100o, para. 2 and 5 of the Law on the Public Offering of Securities (POSA), including also the established events, occurring after the balance sheet date. The structure of this report is in accordance with Annex 9, 10 and Appendix 11 to Article 32a (2) of Ordinance No. 2.

The board of directors of the holding confirms that:

- there were no irregularities in which managers or employees were involved, which may be material to the consolidated financial statements;
- all material transactions are duly accounted for and reflected in the annual financial statements as at 31 December 2017;
- there is no actual or potential breach of laws and (or) other regulatory provisions that would have a material impact on the consolidated financial statements or could serve as a basis for reporting contingent loss;
- there are no legal or other restrictions on the flow of funds;
- there are no known trends, requests, commitments, events or occasional circumstances for which there is reason to expect that they may affect the company as a whole.

This management report contains estimates and information based on our beliefs and assumptions, using currently available information about them. Any statements contained in this report that are not historical facts are predictions. We have based these statements on the future of our current expectations, assumptions and predictions about future conditions and events. As a result, our predictions and information are exposed to uncertainties and risks, many of which are beyond our control. If one or more of these uncertainties or risks materialize or if the underlying management assumptions prove to be incorrect, our actual results may differ materially from those described in the report. We describe these risks and uncertainties in the report in the Risk Section.

The words "purpose", "predict", "accept", "believe", "in the future", "we could", "rely", "we are confident", "appreciate", "expect", " ", "we intend", "we can", "can", "prospect", "plan", "project", "predict", "would" and other similar expressions are intended to identify these forward-looking statements. Such estimates are, for example, those made in the Business Results section of our quantitative and qualitative disclosures about market risk in accordance with International Financial Reporting Standards (IFRS), namely IFRS 7 and related statements in our Notes to the financial statements, our prospects for development, and other forecast information that appears in other parts of

this report. Unless required by law, we do not commit and we have no obligation to update or revise predictive statements as a result of new information we have received about the conditions that existed at the time of this report, future events, or otherwise unless we are obliged to do so under the law.

his report includes IT industry statistics and global economic trends that come from information published by sources including International Data Corporation (IDC), a market information and information technology consultant, telecoms and consumer technology markets; Gartner, the European Central Bank (ECB); and the International Monetary Fund (IMF). This data type is only the forecasts of IDC, the ECB, the IMF and other data sources for the global economy and industry. SIRMA does not guarantee any statistical information provided by sources such as IDC, Gartner, ECB, IMF, or other similar sources cited in this report. In addition, although we believe that information from these sources is generally reliable, this type of data is inaccurate. We warn readers not to create unnecessary dependence on this data.

In our Individual Management Report, we analyze our business activities for the reporting financial period as well as the current situation of Sirma Group Holding. Starting from a description of our business, economic environment and strategy, we present our financial system and explain in detail our results and operations as well as our financial position and net assets. We also report on the various aspects of financial sustainability of Sirma Group Holding and the expected development of possible risks.

The financial information presented in the Sirma Group Holding JSC report includes our separate financial statements, our report to the Board of Directors and some financial aspects derived from our management accountability. The non-financial data presented in the report includes aspects of intellectual, human and social rights and relationships derived from our materiality assessment.

Our annual separate financial statements have been prepared in accordance with IFRSs. Internal control over financial reporting ensures the reliability of the information presented in the separate financial statements. Our Board of Directors has confirmed the effectiveness of our internal financial reporting.

The reporting period is the financial period ending on 31.12.2017. The report includes Sirma Group Holding JSC.





## 2/ ORGANIZATION AND WAY OF PRESENTATION

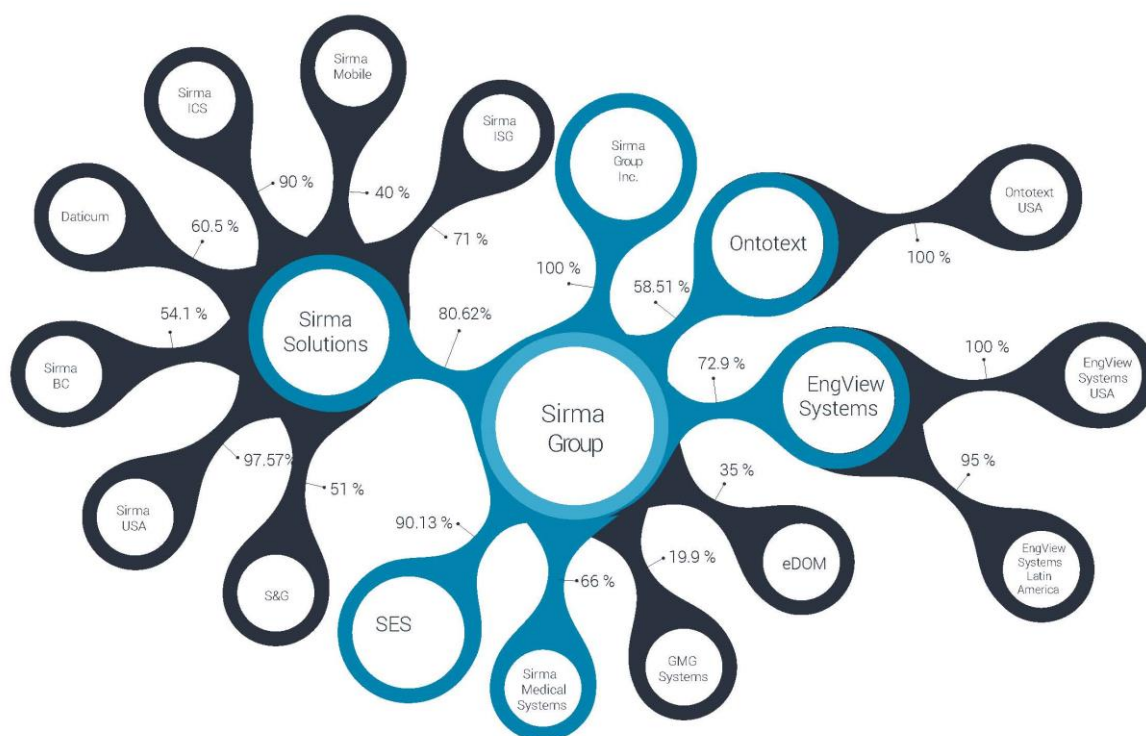
Sirma Group Holding JSC is a holding company that invests in technological businesses, manages them strategically and operationally, provides its subsidiaries with management, administrative, marketing and financial services.

Over the years, Sirma has created over 20 companies, investing in them a tremendous financial and human

capital. Our strategy is to create businesses, incubate them and develop them.

Generating robust growth, cost-effectiveness and consistent business results are among the company's top priorities.

### 2.1. Group structure \*



\* In the chart, the shareholding in net of repurchased own shares.



## HISTORY AND DEVELOPMENT OF THE COMPANY

"Sirma Group Holding" JSC is a holding company is registered on 25.04.2008 with the Registry Agency with UIC 200101236, with Seat and registered office: BULGARIA, Sofia (capital), Sofia municipality, city. Sofia, 1784,Mladost area, bul. Tsarigradsko Shosse, No 135. The name of the company changed on 23.03.2009. from "SGH" JSC to "Sirma Group Holding" JSC.

The object of the company is: ACQUISITIONS, MANAGEMENT, EVALUATION AND SALE OF

PARTICIPATION IN BULGARIAN AND FOREIGN COMPANIES, ACQUISITION, EVALUATION AND SALE OF PATENTS, CESSION OF LICENSES TO USE PATENTS TO COMPANIES IN WHICH THE COMPANY HOLDS, FINANCE COMPANIES IN WHICH THE COMPANY PARTICIPATES, ORGANIZE ACCOUNTING AND COMPILING FINANCIAL STATEMENTS UNDER THE LAW OF ACCOUNTING. COMPANY MAY PERFORM INDEPENDENT BUSINESS ACTIVITY THAT IS NOT PROHIBITED BY LAW.

### Changes in the subject of activity:

On 23.03.2009 Sirma Group Holding changed its scope of activity as follows: Acquisition, management, evaluation and sale of participations in Bulgarian and foreign companies, acquisition, evaluation and sale of patents, surrender of licenses for use of patents to companies in which the holding company participates, financing of the companies in which the holding company participates, organization of the accounting and preparation of financial statements under the order of the Law for Accounting. The company may also carry out its own commercial activity,

which is not prohibited by law. On 04.07.2012 the subject of activity is changed to the actual one.

At the time of its incorporation, the company operated under the following business activities: design, development, marketing, sales, implementation, training and support of software products and complete solutions, including software project management, information and communication technology consultancy; accounting services, as well as any other activity not prohibited by law.

From the establishment of the company until the date of this document, Sirma Group Holding JSC:

- is not the subject of consolidation;
- no transfer or pledge to the enterprise;
- No claims have been filed for the opening of insolvency proceedings of the company;
- There are no tenders from third parties to the Company or from the Company to other companies;

## CAPITAL

The share capital of the company amounts to 59,360,518 leva, divided into 59 360 518 dematerialized shares with nominal value of 1 lev.

- On 30.10.2015, after a successful initial public offering, the capital was increased to 59 360 518 leva by issuing 9 523 362 new shares with nominal value per share 1 lev and issue value 1,20 leva.

Non-monetary contributions - description:

1. Software representing 29 (twenty nine) software modules.

**Value: 61 555 838 Leva**

2. 81 960 number of ordinary registered shares of "Sirma Group" JSC, the company registered in the Commercial Register to the Registry Agency with UIC 040529004.  
**Value: 11 734 980 Leva**

3. Real Estate - Floor 3 of an office building "IT - Center Office Express" in Sofia, bul."Tsarigradsko Shosse " N 135 with an area 796, 50 square meters, pursuant to Deed of buying and selling real estate N 126, Volume I, reg. N 4551, case N 116 from 23.04.200. and 5 floor of an office building "IT - center office Express" in Sofia bul. " Tsarigradsko Shosse " N 135 with area 281.81 square meters, according to Deed of sale of real estate N 86, Volume 4, Reg. N 10237, Case N 592 of 23.12.2004  
**Value: 3 911 660 Leva**

**Total Value: 77 202 478 leva**

Non-cash contributions are detailed in Article 7, paragraph 3 of the Articles of Association of the Company.



## HISTORY OF SHAREHOLDER CAPITAL

• Through an initial public offering, according to a resolution of the GMS dated 04.12.2014, an increase of the capital of Sirma Group Holding JSC was registered on 30.10.2015, increasing the capital to 59 360 518 levs.

• During the transformation entered in the Commercial Register on 23.10.2014, the Company's capital is reduced to 49 837 156 through the cancellation of 23 503 662 shares. This decrease is a result of the estimated fair value of the shares of Sirma Group Holding JSC by three independent valuers. The shareholding structure of the Company does not change as a result of the separation until the shareholding structures in the transforming and newly established companies are mirrored.

• On 22.10.2010, as a result of the decision of the regular annual general meeting of the Company's shareholders, a reduction of the capital of Sirma Group Holding JSC from 77,252,478 levs to 73,340,818 levs was recorded through the cancellation of 3,911,660 shares with a par value of one each. The Company's capital was reduced on the basis of Art. 200, para. 2, in conjunction with Art. 187f, par. 1, item 2n in Bulgarian commercial law.

• On 15.10.2008 after the adoption of three triple expert appraisals, the share capital is increased from 50 000 levs to 77 252 478 levs through non-cash contributions by issuing new 77 202 478 shares as follows:

1) 29 software modules worth 61 555 838 levs;

2) Non-monetary contribution representing real estate amounting to 3 911 660 levs:

□ Office building - offices, floor 3th and floor 5th of an office building, located in Sofia, 135 Tsarigradsko shose Blvd., owned by "Sirma Group" AD, a company registered in the Commercial Register at the Registry Agency UIC 040529004, with headquarters and address of management in Sofia, Mladost district, 135 Tsarigradsko shose Blvd., accepted as shareholder in "SGH" AD by decision of the General Meeting of "SGH" JSC from 10.07.2008

3) Non-cash contribution representing shares of 11 734 980 levs:

□ A total of 81,690 shares of the total amount of 11,734,980 levs (143.6526 levs per share) of the capital of "Sirma Group" AD, registered in the Commercial Register at the Registry Agency UIC, 040529004.

## Information on the terms of any vesting rights and / or liabilities for statutory but unissued capital

Sirma Group Holding JSC does not have information about the terms of any acquisition and / or liabilities for statutory but unissued capital.

# 3/ PORTFOLIO OF SIRMA GROUP HOLDING JSC

### Subsidiaries of "Sirma Group Holding" JSC

Company	Value of the investment at 31.12.2017 (in thousands Levs)	Percentage of capital at 31.12.2017	Percentage of capital with adjusted repurchased own shares at 31.12.2017	Value of the investment at 31.12.2016 (in thousands Levs)	Percentage of capital at 31.12.2016	Percentage of capital with adjusted repurchased own shares at 31.12.2016	Changes In thousands Levs
Sirma Solutions	36 260	75,61%	80,62%	36 260	75,61%	81,44%	0
Sirma Enterprise Systems	6 895	88,71%	90,13%	6 895	88,71%	91,72%	0
Sirma Medical Systems	66	66,00%	66,00%	66	66,00%	66,00%	0
Sirma Group Inc.	3 471	100,00%	100,00%	3 471	100,00%	100,00%	0
Ontotext	9 650	58,51%	58,51%	8 672	56,21%	56,21%	978
Engview Systems	50	72,90%	72,90%	50	72,90%	72,90%	0
<b>Total</b>	<b>56 392</b>			<b>55 414</b>		<b>978</b>	

### Associated companies and joint ventures of "Sirma Group Holding" JSC

Company	Value of the investment at 31.12.2017 (in thousands Levs)	Percentage of capital at 31.12.2017	Value of the investment at 31.12.2016 (in thousands Levs)	Percentage of capital at 31.12.2016	Changes In thousands Levs
GMG Systems (IN LIQUIDATION)	214	19,93%	214	19,93%	0
E-DOM MANAGEMENT	7	35,00%	7	35,00%	0
<b>Total</b>	<b>221</b>		<b>221</b>		<b>0</b>



## INFORMATION ON PARTICIPATION

Apart from the above mentioned participations of the Company under ORGANIZATIONAL STRUCTURE above, there are no other participations that are likely to have a significant effect on the valuation of its own assets and liabilities, financial position or profits or losses.

# 4/ STRUCTURE OF SHAREHOLDERS CAPITAL AND MANAGEMENT AUTHORITIES

## 4.1. Distribution of share capital

As of 31.12.2017 the distribution of the share capital of Sirma Group Holding is as follows:

	31.12.2017 BGN '000	31.12.2016 BGN '000
Share capital	59 361	59 361
Number of shares (par value of 1.00 lev)	59 360 518	59 360 518
Total number of registered shareholders	984	777
including: legal entities	56	42
individuals	928	735
Number of shares held by legal entities	10 053 825	6 532 738
% Of participation of entities	16,94%	11,01%
Number of shares held by individuals	49 306 693	52 827 780
% Participation of individuals	83,06%	88,99%

Shareholders	Number of shares at 31.12.2017	Number of shares at 31.12.2016	Nominal VALUE	Value	% Shareholding	% shareholding with deducted repurchased own shares
Atanas Kostadinov Kiryakov	2859965	5258015	1 lv.	2 859 965 lv.	4,82%	4,86%
Veselin Kirov Antchev	4700786	5250786	1 lv.	4 700 786 lv.	7,92%	7,98%
Tsvetan Borisov Alexiev	4851376	5252376	1 lv.	4 851 376 lv.	8,17%	8,24%
Chavdar Velizarov Dimitrov	4750786	5250786	1 lv.	4 750 786 lv.	8,00%	8,07%
Yavor Liudmilov Djonev	1404560	5250786	1 lv.	1 404 560 lv.	2,37%	2,39%
Georgi Parvanov Marinov	5257402	5257402	1 lv.	5 257 402 lv.	8,86%	8,93%
Krasimir Nevelinov Bozhkov	2965686	4903530	1 lv.	2 965 686 lv.	4,996%	5,04%
Ognyan Plamenov Chernokozhev	3731620	3729330	1 lv.	3 731 620 lv.	6,29%	6,34%
Vladimir Ivanov Alexiev	2177583	2177583	1 lv.	2 177 583 lv.	3,67%	3,70%
Rosen Vasilev Varbanov	2156687	2156687	1 lv.	2 156 687 lv.	3,63%	3,66%
Vasil Stanimirov Mirchev	837327	837327	1 lv.	837 327 lv.	1,41%	1,42%
Peter Nikolaev Konyarov	1289307	1298965	1 lv.	1 289 307 lv.	2,17%	2,19%
Emiliana Ilieva Ilieva	2251925	0	1 lv.	2 251 925 lv.	3,79%	3,82%
Elena Yordanova Kozuharova	2140827	0	1 lv.	2 140 827 lv.	3,61%	3,64%
Ivo Petrov Petrov	755750	0	1 lv.	755 750 lv.	1,27%	1,28%
Stanislav Ivanov Dimitrov	649868	0	1 lv.	649 868 lv.	1,09%	1,10%
Expat Bulgaria SOFIX UCITS ETF	881407	0	1 lv.	881 407 lv.	1,48%	1,50%
FOUNDATION FOR EDUCATIONAL TRANSFORMATION	669566	0	1 lv.	669 566 lv.	1,13%	1,14%
"NN Universal Pension Fund"	2439539	2084539	1 lv.	2 439 539 lv.	4,11%	4,14%
UPF "DOVERIE" JSC	802126	802126	1 lv.	802 126 lv.	1,35%	1,36%
UPF "DSK Rodina"	747036	747036	1 lv.	747 036 lv.	1,26%	1,27%
"ZMM SOLAR" Ltd.	960000	960000	1 lv.	960 000 lv.	1,62%	1,63%
Other	10 079 389	8 143 244	1 lv.	10 079 389 lv.	16,98%	17,12%
<b>Total</b>	<b>59360518</b>	<b>59360518</b>		<b>59 360 518 lv.</b>	<b>100%</b>	<b>100%</b>





Shareholders holding more than 5% of the company's capital are:

Shareholders	Number of shares at 31.12.2017	% Shareholding	% shareholding with deducted repurchased own shares
Veselin Antchev Kirov	4 700 786	7,92%	7,98%
Tsvetan Borisov Alexiev	4 851 376	8,17%	8,24%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,07%
Georgi Parvanov Marinov	5 257 402	8,86%	8,93%
Ognyan Plamenov Chernokozhev	3 731 620	6,29%	6,34%

Insofar as it is known to the Company, indicate whether the company is directly or indirectly owned or controlled and by whom and how the nature of that control and the measures introduced are introduced to avoid abusing such control.

The Company is not aware to be directly or indirectly owned or controlled.

Description of any arrangements known to the Company, the operation of which may at any subsequent date result in a change in the control of the Company

The Company is not aware of any arrangements the effect of which could lead to a change in the control of Sirma Group Holding JSC in the future.

## 4.2. Management bodies

Sirma Group Holding has a one-tier management system - Board of Directors.

The Board of Directors as of 31.12.2017 r. includes the following members:

Chavdar Dimitrov Velizarov  
Tsvetan Borisov Alexiev  
Atanas Kostadinov Kiryakov  
Georgi Parvanov Marinov  
Tsvetomir Angelov Doskov  
Sasha Konstantinova Bezuhanova - independent member  
Petar Borisov Statev - independent member  
Yordan Stoyanov Nedev - independent member

**Determination of the mandate of the Board of Directors:** 2 years from the date of entry.

**The current mandate of the Board of Directors:** 27.07.2019

## The jurisdictions of the management

The jurisdictions of the management are in line with those listed in the Commercial Law, the Statute and the LPOS.

At the Annual General Meeting of the Shareholders of Sirma Group Holding JSC, a decision was taken for the redemption of own shares by Sirma Group Holding JSC, as follows:

Sirma Group Holding JSC to buy back its own shares, the Board of Directors shall carry out the redemption under the following conditions:

At the date of this report, 474,724 own shares were purchased.

- The maximum number of shares subject to redemption is 100 000 shares;
- Minimum price of 0.50 levs per share and a maximum price of 1.50 levs per share.
- The buyout deadline is 31.12.2017
- Redemption method - through an investment intermediary.

## Stock options of the company

As of the date of this report, no options are available to the members of the Board of Directors on its shares.



## Committees in The Company

Sirma Group Holding JSC creates the following internal committees, which are assigned to manage the respective activities at the operational level, as well as to propose decisions to the Board of Directors of the company:

**1. Investment and Risk Committee, composed of:**

*Yordan Nedev – chairman  
Tsvetan Alexiev – member  
Radka Peneva – member  
Georgi Marinov – member*

**2. Remuneration Committee, composed of:**

*Georgi Marinov – chairman  
Petar Statev – member  
Yordan Nedev – member*

**3. Information Disclosure Committee, composed of:**

*Tsvetan Alexiev – chairman  
Radka Peneva – member  
Stanislav Tanushev – member  
Chavdar Dimitrov – member  
Atanas Kiryakov – member*

**4. Audit Committee, composed of:**

*Angel Petrov Kraychev - председател  
Alexander Todorov Kolev - member  
Emilian Ivanov Petrov – member*

## Accepted internal normative documents

In 2015 the company adopts the necessary internal documents related to the company's working and management processes and fulfillment of its obligations as a public company:

- Good Corporate Governance Program;
- Operating Rules of the Board of Directors;
- Instructions and clarifications on the obligations and responsibilities of internal insiders;
- Special code of conduct for financial and accounting positions.

*All documents are publicly available on the company's website:*

<https://www.sirma.bg/investors/корпоративно-управление/корпоративни-документи/>

The participation of members of the Board of Directors in the capital of the Company is as follows:

Shareholders	Number of shares at 31.12.2017	Number of shares at 31.12.2016	Nominal VALUE	Value	% Shareholding	% shareholding with deducted repurchased own shares
Atanas Kostadinov Kiryakov	2859965	5258015	1 lv.	2 859 965 lv.	4,82%	4,86%
Georgi Parvanov Marinov	5257402	5257402	1 lv.	5 257 402 lv.	8,86%	8,93%
Tsvetan Borisov Alexiev	4851376	5252376	1 lv.	4 851 376 lv.	8,17%	8,24%
Chavdar Dimitrov Velizarov	4750786	5250786	1 lv.	4 750 786 lv.	8,00%	8,07%
Petar Borisov Statev	10100	100	1 lv.	10 100 lv.	0,02%	0,02%
Yordan Stoyanov Nedev	3433	3433	1 lv.	3 433 lv.	0,01%	0,01%
<b>Total</b>	<b>17733062</b>	<b>21022112</b>		<b>17 733 062 lv.</b>	<b>29,87%</b>	<b>30,11%</b>

During 2017 :

- Petar Borisov Statev acquired 10 000 shares in SIRMA GROUP HOLDING JSC
- Atanas Kostadinov Kiryakov transferred/sold 2 398 050 shares of SIRMA GROUP HOLDING JSC
- Chavdar Dimitrov Velizarov transferred/sold 500 000 shares of SIRMA GROUP HOLDING JSC
- Tsvetan Borisov Alexiev transferred/sold 401 000 shares of SIRMA GROUP HOLDING JSC

CEO of Sirma Group Holding is Tsvetan Borisov Alexiev.



## Remuneration of the members of the Board of Directors of Sirma Group Holding JSC

Pursuant to Article 25, paragraph 5 of the Articles of Association of the Company, each member of the Board of Directors has received a permanent bruto remuneration:

Name	Entity	31.12.2017 BGN
Tsvetan Borisov Alexiev	SIRMA GROUP HOLDING JSC	144 000
Chavdar Dimitrov Velizarov	SIRMA GROUP HOLDING JSC	59 465
Tsvetomir Angelov Doskov	SIRMA GROUP HOLDING JSC	18 600
Atanas Kostadinov Kiryakov	SIRMA GROUP HOLDING JSC	19 200
Georgi Parvanov Marinov	SIRMA GROUP HOLDING JSC	25 200
Sasha Konstantinova Bezuhanova	SIRMA GROUP HOLDING JSC	18 000
Yordan Stoyanov Nedev	SIRMA GROUP HOLDING JSC	77 880
Petar Borisov Statev	SIRMA GROUP HOLDING JSC	19 200
<b>Total</b>		<b>381 545</b>

## INFORMATION ON THE CONTRACTS OF THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODIES WITH THE COMPANY PROVIDING BENEFITS FOR THE STOPPING OF EMPLOYMENT

In the contracts of the members of the board of directors, both with the Company itself and with subsidiaries of the Company, where such contracts are available to them, no

benefits have been provided upon termination of their contracts.

## INFORMATION ON THE COMPANY'S AUDIT COMMITTEE, INCLUDING THE NAME OF THE MEMBERS OF THE COMMITTEE AND A MANDATE SUMMARY ON WHICH THE COMMITTEE FUNCTIONS

At the General Meeting of the Shareholders of the Company held on 14.06.2016 an Audit Committee was appointed (according to the requirements of paragraph 1, item 11, letter "a" of the FIA) consisting of:

*Angel Petrov Kraychev - chairman  
Alexander Todorov Kolev - member  
Emilian Ivanov Petrov – member*

**The mandate of the Audit Committee is 3 (years).**

## STATEMENT ON WHETHER THE COMPANY COMPLIES OR DOES NOT TO THE REGIME FOR CORPORATE GOVERNANCE

In view of the fact that Sirma Group Holding JSC is entered in the register under Art. 30, para. 1, item 3 of FSCA, kept by FSC, the Company has implemented a program prepared in accordance with internationally recognized standards for good corporate governance. In accordance with the provision of Art. 100n, para. 4, item 3 of LPOS

Sirma Group Holding JSC is obliged to comply with the content of its financial statements with a program for the application of internationally recognized standards for good corporate governance and maintains its accounting policy in accordance with International Accounting Standards.



## 5/ OUR BUSINESS MODEL

### Sirma Group Holding

- is composed of quasi-independent legal entities
- owns directly or indirectly 50 to 100% of the capital of the group companies
- usually controls more than 50% of the members of the management bodies
- Controls the companies in the group and determines their development, investments, adopts their budgets, provides legal, financial and administrative services, coordinates the marketing and HR policy of the companies in the group.
- is the parent company in the group

### Benefits of the mode

- Vertical and regional expertise and experience;
- Customer knowledge, environment and specifics;
- Combination of technologies and products with possibilities for realization in different verticals;
- Local specialists speaking local language;
- Synergy between enterprises;
- Unified corporate culture and values;

## 6/ SIRMA GROUP HOLDING IN 2017

### Economic Trends

#### Macro frame

According to data from the National Statistical Institute, in December 2017 the total business climate indicator decreased by 1.6 percentage points compared to November 2017. A more unfavorable business climate was registered in industry, construction and service sector, while in retail trade it kept approximately levels from the previous month.



The composite indicator "business climate in industry" declined by 1.9 percentage points, due to the more reserved expectations of industrial entrepreneurs for the enterprises in the next six months. The survey reported a decrease in the production of orders from abroad, which is accompanied by lower expectations for business activity over the next three months.

Uncertain economic environment and labor shortages remain the main barriers to business development in the sector, with the second factor in December marking a new long-term maximum (31.4%) since 2003. With regard to the sales prices in the industry, managers' overriding expectations are to remain unchanged over the next three months.

According to data from the National Statistical Institute in December 2017, the composite indicator "Business Climate in Construction" dropped by 3.5 percentage points in the resultant less favorable estimates and expectations of the contractors for the business condition of the enterprises. According to them, new orders received in the last month are down and their forecasts for activity over the next three months are pessimistic.

The main factors hampering enterprises continue to be the secure economic environment, competition in the industry and labor shortages, and the poll shows weakening of the negative impact of the first two factors. Regarding sales prices in construction, most managers expect to maintain their level in the next three months.

According to the National Statistical Institute, the composite business climate indicator in retail trade has kept its level since November 2017. The retailers' assessments of the current business situation of the enterprises and their forecasts for the development of their business over the next six months remain favorable. However, their volume of sales and orders to suppliers over the next three months are worsening.

The main problem in the sector is again related to competition in the industry. The second and third place are



the insufficient demand and the uncertain economic environment, although in the last month there has been a decrease in their unfavorable impact. With regard to sales prices, traders' expectations are for some increase over the next three months.

According to data from the National Statistical Institute in December 2017, the composite indicator "business climate in the service sector" decreased by 0.9 points mainly due to shifting managers' expectations about the business situation of enterprises in the next six months from "better" of the "same." The most serious difficulties for business development continue to be related to competition in the industry and the uncertain economic environment. Most managers foresee that sales prices in the sector will remain unchanged over the next three months.

The economic assessment of the Governing Council of the ECB on 14 December 2017 noted that the economic upturn in the euro area continued to be strong and broad across countries and sectors. Real GDP growth is boosted by growth in private consumption and investment, as well as by exports, boosted by global recovery. The results of the latest study and incoming data confirm the growth boost. The upturn of the world economy is continuing at a sustained pace, and there are signs that the recovery is synchronized globally. According to Eurosystem staff macroeconomic projections for the euro area of December 2017, real GDP is projected to grow annually by 2.4% in 2017, 2.3% in 2018, 1.9% in 2019 and 1.7% in 2020. Compared with the September 2008 ECB staff macroeconomic projections, the real GDP growth outlook has been revised considerably upwards. The current economic recovery in the euro area is expected to continue to be supported by the ECB's monetary policy measures. In addition, the rise in private spending and consumption is supported by the weaker need to reduce indebtedness and better labor market conditions. Improved business profitability and very favorable financing conditions continue to encourage recovery in business investment, while euro area exporters are in a favorable position due to the global economic upturn observed.

## THE NEW STRATEGY OF SIRMA GROUP HOLDING JSC

Since 1.07.2017 Sirma Group Holding has started to implement its updated strategy, including:

**WHAT** - Strengthening the core and optimizing processes related to investment management in development, concentration of intellectual property

**HOW** - Migration to the SaaS Model of Sales and Integration of Cognitive Technology in the Portfolio

**WHERE** - Strengthening presence and sales on existing markets, expanding into new regions.

### Execution

In pursuance of the strategy, the group will move to a new technological level by creating a NEW MODERN CLOUD SYSTEM OF SOFTWARE PRODUCTS, SOLUTIONS AND SERVICES BASED ON COGNITIVE TECHNOLOGIES, USING THE TRANSITION OF ENTERPRISES AND ORGANIZATIONS FROM DIGITAL TO INTELLIGENT.

For this purpose, Sirma reorganizes the corporate structure, concentrates intellectual property and solutions for financing development. The Group will continue to work towards the development of foreign markets and the sale of customized solutions to complex problems. At the same time, we are looking to accelerate the growth of recurring revenue with low marginal costs - moving from product sales to cloud-based services, the SaaS model, and investment in marketing and sales.

### Targets

The Group has set out the following targets for reporting on the implementation of the strategy:

- ☐ >35% average annual revenue growth
- ☐ >70% revenue share from SaaS
- ☐ > 70% revenue share from North America and Europe
- ☐ > 29% EBITDA margin

### Achievements

The current status of the goals:

- ☐ > 20% average annual revenue growth
- ☐ 40% revenue share from SaaS
- ☐ 40% revenue share from North America and Europe
- ☐ >17% EBITDA margin

Revenue growth will be backed by strengthening market share in cognitive services, one of the most promising segments of the IT sector where Sirma Group has significant expertise.





### Implement the strategy

The levers we will focus on implementing the strategy include:

- Strengthening the leading positions for software services, managed services, system integration;
- Increase investment in marketing and sales of the existing product portfolio
- Marketing of products on the foreign market, with a focus on insurance, engineering and healthcare
- Acquisition of companies as a sales platform

- Add new services - Data as a Services; PaaS; SaaS, and so on.
- Decrease the amount of non-controlling participation and consolidation of IP rights

The Group aims to become a globally recognized player in the market for the delivery of cognitive products, solutions and services by uniting the internationally renowned and market-proven products and top technologies in the Sirma Cognitive System and developing vertical specialization.

## MANNER OF FUNCTIONING OF SIRMA

- IN SHORT-TERM PLAN, we want to "manage the implementation." To achieve this goal, we will detail our structures and responsibilities. We will focus on business excellence. In addition, we want to be able to get back on track those businesses that have not reached their full potential and make them extremely competitive.
- "Strengthening the core" is our goal IN MEDIUM-TERM PLAN. We intend to strengthen our successful businesses financially to expand them into strategic areas and provide them with rapid growth.
- IN LONG-TERM PLAN, we want to "scale." We will accelerate our efforts to take advantage of further growth opportunities and the opening of new territories.

Success is related to the achievement of **SEVEN OBJECTIVES**:

- Apply rigorous corporate governance rules: We want simplification and acceleration of corporate governance processes.

- Creating sustainable values: We are in the process of attractive growth in areas and businesses that have not yet reached their full potential.

- Strict implementation of target funding.

- Expansion of global governance: For the future, we want more than 30% of managers to be based outside of Bulgaria in view of the adequacy of the global expansion orientation of the company

- To become a partner in our clients' decisions: We want to be a partner in customer choices.

- Being a preferred employer: Highly committed and satisfied employees are at the heart of our success. We are - and we want to stay - an attractive employer.

- Development of property culture: In the future, our employees will have an even greater share in the success of the group companies. We will increase the current number of shareholders-employees with different programs.

## PARTICIPATION IN MANAGEMENT AND IMPLEMENTATION OF CONTROL ON THE SUBSIDIAR COMPANIES

In 2017, as in previous periods, Sirma Group Holding's senior management was actively involved in the management of its subsidiaries. The high expertise and accumulated experience of Sirma Group Holding's managers helped companies to formulate their development goals and strategies as well as their business and financial plans. As a

result, the company achieved outstanding successes over the past year. At the same time, taking part in the management of the Group's companies, they monitored the Group's overall objectives, strategies for its development and financial discipline.



## MARKETING

In operational terms, the annual marketing strategy and budget of the Sirma Group Holding for 2017 ensured the planning, development and successful implementation of the following activities:

1. Creating, developing and maintaining a general knowledge of the Sirma brand through a range of activities that help for successful branding and corporate communications - public relations, investor relations, public institutions, company employees, general public. They included internet marketing, online meetings, helping managers and managers with marketing materials for their investment tours, press interviews, TV, radio, participation in specialized and high profile business events.

2. Building a strong employer brand and affirming the company as an attractive place to work, career development and realization of own innovative ideas for creating new software products and solutions, working with the most advanced technologies, entering new market niches. A favorable environment has been created and the innovation process in companies is regularly promoted. Social media is actively used for informal communication with employees,

engaging in important causes, informing about upcoming events, company and product news. The team building conducted at the end of the year was traditionally one of the most anticipated events that enabled people from different companies, cities and offices to communicate in an informal environment.

3. Increased presence of the brand in social media and communication management through digital channels. As part of marketing through social channels, a content marketing program has been developed. It aims at:

- enhanced performance across the global network through digital tools - a substantial increase in traffic to Sirma Group Holding sites and subsidiaries; improved detection in the most popular search engines - SEO & SEM activities;
- raising awareness of external and internal audiences about corporate initiatives and key business events;
- informing the audience about new products and services created by our companies, the development of existing products and services, company achievements;

## FINANCIAL ACTIVITY AND MANAGEMENT OF FINANCIAL RESOURCES OF THE GROUP

### ASPECTS OF THE FINANCIAL ACTIVITY OF HOLDING AND GROUP

Over the past period the management of the financial activities of Sirma Group Holding was carried out in the following:

#### I. Goals

As a **strategic goal** of financial management, Sirma Group Holding has accepted the increase in the wealth of the owners, which can only be achieved by maximizing the market value of the company based on the share price.

As a **tactical objective** of the financial management, Sirma Group Holding adopted the maximization of revenues and profit.

As an **operational objective** of financial management, Sirma Group Holding has determined the maintenance of the solvency of the company and the Group companies as an opportunity to service all emerging uncontested payments.

#### II. Execution of functions

1. Executed functions of Sirma Group Holding's management::

- a) Financial planning - plans of Sirma Group Holding and of all companies of the Group for a one-year and mid-term period were prepared.
- b) Co-ordination of the financial activity - Sirma Group Holding coordinated the activities of all the companies in the Group for the fulfillment of the general objectives of the financial activity management and for the implementation of unified policies in this activity;
- c) Control - The financial team of the Sirma Group Holding throughout the year carried out regular and periodical control over the financial activity of the companies in the group.

2. As regards the financial activities of Sirma Group Holding and the subsidiaries, the Holding had the following functions:

a) financing - related to the provision of financial resources and the structuring of capital needed for the proper functioning of the enterprise.

This function is related to the company Balance liability. There are the sources of capital available to the enterprise for the conduct of its business.

b) investment - covers the insured capital in different assets in order to realize the strategic objective of the company. This feature is related to the Balance asset.

#### III. Completed tasks

1. Ensure sufficient financial resources in accordance with the strategy and tasks for the development of Sirma Group Holding and the subsidiaries during the respective period.
2. Ensuring the most efficient allocation and utilization of the volume of financial resources formed in the main directions of the Group's activity.
3. Optimization of the monetary turnover - synchronization by size and time of the receipts and payments for the normal service of the undisputed payments.
4. Ensure maximum profit at a given level of risk.
5. Ensure the financial equilibrium of Sirma Group Holding and the subsidiaries in the process of their development.

In fulfilling the task of financial equilibrium, we have complied with the golden balance rule, which requires long-term assets to be funded by long-term capital sources, and short-term assets from short-term sources of capital.



6. Providing opportunities for quick capital reinvestment when changing the external and internal conditions for carrying out the business activity.

## - ACCOUNTING SERVICES

In 2017 Sirma Group Holding performed the accounting services of 18 subsidiaries and associated companies and related companies, which has 4 companies more than the previous period. In addition to regular accounting services, management is presented with various BI reports built as know-how of the Group. The FAD of Sirma Group Holding achieved monthly reporting of results at individual and group level. The department also managed to manage the companies' relationships with the fiscal and social security

systems. During the period 33 tax inspections were carried out. The timely introduction of taxes, timely information submission and the preparation of information under the Law for Public Offering of Securities to the Financial Supervision Commission and the BSE have been performed in the period.

## - LEGAL SERVICES

The legal department of Sirma Group Holding carries out legal services to the companies of the Group, which includes the preparation of corporate documents; assistance with the

preparation and implementation of the GMS; preparation of any commercial documents and contracts; settlement of commercial disputes; conducting court cases.

## - MANAGEMENT OF RISKS

The management of the risks of Sirma Group Holding is the responsibility of the Board of Directors. In his activities, he is assisted by the Investment and Risk Committee. The holding also supports its subsidiaries for risk management.

Risk management is, inherently, the ability to anticipate threats to the company's activities, individual projects and minimize their adverse effects. The process is iterative. It starts with identifying the possible risks, goes through risk analysis and planning their management, then begins a process of monitoring and a regular return to the analysis process.

In Sirma Group Holding a sophisticated risk management system has been set up.

### Risk management in the Sirma Group Holding includes:

- Risk identification - This is a lengthy process that detects potential threats. In order to identify the expected and predictable risks, different methods are used: questionnaires (interview questionnaires), interviews, brainstorming, document analysis, a list of expected and predictable risks (checklist analysis), based on a previous experience
- Qualitative and quantitative risk analysis - Once the potential risks have been identified, a qualitative and quantitative analysis of each of them is required. The likelihood of occurrence and impact through predefined scales is estimated, for example Probability: very small, small, medium, large or very large; Impact: catastrophic, critical, permissible, insignificant.

A risk table is prepared with the data. Risks are grouped into categories, their likelihood of occurrence and their impact, as well as case scenarios that are implemented in case the risk occurs. The resulting list is sorted by impact and probability. A threshold is set, the risks over which it will be managed.

The risk table is reviewed and reassessed on a regular basis, as there is a chance that risks may be dropped, new ones added or ratings changed.

- Planning actions to overcome the risk

The next step in risk management is planning. This is the process of documenting the measures that will be applied to managing each of the identified key risks. 3 management strategies are used:

- a) risk avoidance - a strategy that reduces the likelihood of risk occurring;
- b) minimizing the risk-taking effect - a strategy that reduces the consequences of the risk;
- c) Emergency action plans - a strategy where the organization accepts the risk and is ready to deal with it if it comes to fruition;

As a result of the risk planning, a Risk Mitigation Monitoring and Management Plan is established. It may be a separate document or a set of information cards for each individual risk to be stored and managed in a database.

- Risk monitoring and control - This is the latest activity in risk management. This process has several main tasks:
  - confirm the occurrence of a risk
  - ensure that activities to prevent or deal with risks are implemented
  - Identify what risk has caused the relevant problems
  - document information to be used in a subsequent risk analysis



## IMPACT OF EXCLUSIVE FACTORS

The information in this report is not affected by the presence of exceptional factors.

## SUMMARY INFORMATION RELATING TO THE STATE OF WHICH THE COMPANY DEPENDS ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR FROM NEW PROCESSING PROCESSES

Sirma Group Holding is not dependent on patents or licenses, industrial, commercial or financial contracts, as well as new production processes.

For all employees of the Company, it has the appropriate licenses for operating systems and application software for PCs and servers required for the normal workflow.

## INFORMATION, CONCERNING SIGNIFICANT FACTORS, INCLUDING NON-ORDINARY OR RARE EVENTS OR NEW DEVELOPMENTS, THAT EXPRESSLY RENDER THE INCOME OF THE COMPANY'S ACTIVITY

There are no significant factors, including unusual or rare events or new developments that materially affect the Company's revenue and future investments.

## SIGNIFICANT CHANGES IN NET SALES OR REVENUES DISCLOSED IN THE ACCOUNTS

Significant changes in net sales or earnings reported in the Company's accounts detailed in Section 7.1 of this Report are observed during the period considered.

## INFORMATION ON GOVERNANCE, ECONOMIC, FISCAL, MONETARY POLICY OR POLITICAL COURSE OR FACTORS THAT SIGNIFICANTLY HAVE BEEN CONCERNED OR MAY CONTRIBUTE TO SIGNIFICANT, DIRECT, OR CONSEQUENTIAL ACTIVITY OF THE COMPANY

During the period under review, there were no factors of government, economic, fiscal, monetary or political factors that had a significant impact on the company's operations.

The main factors that may affect the Company's operations and how it manages the risk are described in the Risk Factors of this document.

## MAJOR EVENTS IN 2017

The following major events took place in 2017:

### **Capital increase of Ontotext**

In April Sirma Group Holding participated in the capital increase of Ontotext by purchasing 843 030 ordinary shares with nominal value of 1.00 lev at emission price of 1.16 levs per share.



### **Regular Annual Shareholders' Meeting**

A regular annual shareholders' meeting was held on 15.06.2017. The following major decisions were made:

- Based on article 20 from regulation № 48/ 20.03.2013 regarding the remuneration requirements of FSC, members of the Remuneration committee were appointed:  
  
Georgi Parvanov Marinov – chairman  
Yordan Stoyanov Nedev - member  
Petar Borisov Statev- member
- The auditor was changed. Teodora Ivanova Tsvetanova CPA № 0771 from 2012 was appointed as an auditor for 2017.
- A dividend distribution was voted for 2016 at 0.01 levs per share. The total amount of the dividends is 593 605,18 levs.
- Repurchase of own shares was voted. Maximum 1000 000 shares will be repurchased. The price range is between 0.5 levs and 1.5 levs per share. The shares will be repurchased until 31.12.2017.

### **Sirma paid the first dividend after the IPO**

According to decision of the Regular Annual Shareholders' Meeting, dividends for 2016 will be paid up to 15.09.2017

### **The shares of Sirma Group are included in SOFIX**

On the meeting of the Board of Directors of the Bulgarian Stock Exchange – Sofia on 07.09.2017 the decision to include the stock of Sirma Group Holding in the SOFIX index was taken. The reason for this decision is the following: the market capitalization of the free float of the company is 40 420 452 levs, the median of the weekly turnover is 36 651 levs, the number of transactions is 1384 and the average arithmetic value of the spread is 0.06416086. The decision came into force as of 18.09.2017.

## **MAIN LEGAL INFORMATION IN 2017.**

### **REQUESTS FOR SUBMITTED / LISTED APPLICATIONS IN THE TRADE REGISTER**

" Sirma Group Holding "JSC		
Type of document	Submission date y/m/d	Date of entry y/m/d
Invitation to convene GMS	2017.05.09	2017.05.15
Offer from minority shareholders under Art. 223a, para. 1 and 2 of the Trade Law	2017.05.29	2017.06.02
Continuation of the mandate of the BD by two years	2017.06.21	2017.06.27
Individual AFR	2017.06.21	processing
Consolidated AFR	2017.06.21	processing

### **Transactions with shares for the period 01.01.2017 - 31.12.2017:**

In April, Sirma Group Holding participated in the increase of the capital of Ontotext AD by purchasing 843,030 ordinary shares with a par value of 1 levs at an issue value of 1.16 levs.

Sirma Solutions AD submitted to the TR Invitation for the convening of the General Meeting of Shareholders on 17.08.2017, which invitation was registered on 23.08.2017. Draft decision under item 1: GMS increases the capital of Sirma Solutions AD, on the grounds of Art.194 of the TL by issuing new 352 480 ordinary shares.





## Litigation for the period 01.01.2017 - 31.12.2017:

### **“Sirma ISG” OOD against Insurances “Software Retail” EOOD**

Claims amount: 158 283 levs, of which:

- 100 000 levs - filed as a partial claim for compensation for damages from the total amount due, amounting to 538 971.27 levs representing damages for non-performance of contractual obligations
- 58 283 levs. - price of settling claim for establishing the existence of a legal relationship under a license agreement from 01.06.2011 - Reason for the objectively connected claims: Art. 79 of the LOC, Art. 82 LOC

### **“Sirma ISG” OOD against Tianko Sashkov Latev**

Claims amount: 69 162,19 levs of which::

- 50 000 levs - filed as a partial claim for compensation for damages, expressed as expenses incurred from a total amount due from 311 524 levs
- 11 162,19 levs - representing indemnity for damages, expressed as unaccountable material means
- 8 000 levs - representing damages in the form of the lost benefit

Grounds for claims: Art. 45 of the LOC in relation to Art. 145 TL, Art. 36 LPC and Art. 142 TL

**There are no lawsuits filed against the company for the period.**

## AUDIT REMEDY IN 2017

The selected registered auditor of the Company's individual financial statements Teodora Ivanova Tsvetanova, Diploma № 0771 from 2012, received audit fee amounting to 6 thousand levs excluding VAT for 2017

## INFORMATION ABOUT LARGE TRANSACTIONS INCLUDED IN 2017

In 2017, the company made several major deals in connection with the group's new cloud development strategy.



# 7/ INDIVIDUAL FINANCIAL RESULTS

## 7.1. REVENUES

The company's revenue includes:

	31.12.2017 BGN '000	31.12.2016 BGN '000	Change (BGN '000)	Change (%)
Sales revenue	4569	3030	1539	50,79%
Interest revenue	248	309	-61	-19,74%
Revenue from participations	859	777	82	10,55%
Income from financing	54	55	-1	-1,82%
Other Income	5	0	5	n/a
<b>Total</b>	<b>5735</b>	<b>4171</b>	<b>1564</b>	<b>37,50%</b>

Revenues in the period include interest and from participations, since the business of acquiring businesses and parts of them, as well as the provision of loans and the receipt of deposits is the main activity of the holding company. Similarly, the previous period was also presented in this way.

main share in the increase of the revenues has the sales revenues, which increased by 1 539 thousand levs or by 50.79% compared to the previous period and the revenues from participations, which increased by 82 thousand levs or by 10.55% compared to a previous period.

For 2017 the revenues of Sirma Group Holding increased by 1 564 thousand levs or by 37.50% compared to 2016. The

Sales revenue includes:

	31.12.2017 BGN '000	31.12.2016 BGN '000	Change (BGN '000)	Change (%)
Rents of investment properties	317	260	57	21,92%
Consulting services	133	0	133	n/a
Administrative service	863	1026	-163	-15,89%
Software services	1044	0	1044	n/a
Sales of licenses	625	868	-243	-28,00%
Cloud Services	1510	731	779	106,57%
Others	77	145	-68	-46,90%
<b>Total</b>	<b>4569</b>	<b>3030</b>	<b>1539</b>	<b>50,79%</b>

Revenue by regions and countries:

	31.12.2017 BGN '000	Relative share	31.12.2016 BGN '000	Relative share
USA	147	3,22%	149	4,92%
Bulgaria	4422	96,78%	2881	95,08%
<b>Total</b>	<b>4569</b>		<b>3030</b>	

Revenue generated by the biggest clients of the company:

	31.12.2017 BGN '000	Relative share	Relationship	31.12.2016 BGN '000	Relative share	Relationship
Client 1	1681	36,79%	Non-related party	1151	37,99%	Related party
Client 2	1143	25,02%	Related party	866	28,58%	Related party
Client 3	873	19,11%	Non-related party	518	17,10%	Non-related party



## 7.2. EXPENDITURE

	31.12.2017 BGN '000	31.12.2016 BGN '000	Change
Material costs	(76)	(70)	(6)
Change in %			8,57%
Costs for external services	(3 860)	(654)	(3 206)
Change in %			490,21%
Staff costs	(1 486)	(1 155)	(331)
Change in %			28,66%
Depreciation and impairment of non-financial assets	(324)	(382)	58
Change in %			-15,18%
Capitalized own expenses	3 361	42	3 319
Change in %			7902,38%
Interest expenses	(7)	(6)	(1)
Change in %			16,67%
Other expenses	(174)	(163)	(11)
Change in %			6,75%
<b>Total expenditure</b>	<b>(2 566)</b>	<b>(2 388)</b>	<b>(178)</b>
Change in %			7,45%

For the reporting period the expenditure of Sirma Group Holding increased by 178 thousand leva or 7.45% over the previous period. The main part of the expenses are the costs for external services, which increased by 3 206 thousand leva or by 490.21% compared to a previous period, and staff costs increased by 331 thousand leva or 28.66% over the previous period.

The total costs of transactions with the largest suppliers of the company are as follows:

	31.12.2017 BGN '000	Relative share	Link to the Issuer	31.12.2016 BGN '000	Relative share	Link to the Issuer
<b>Supplier 1</b>	3180	53,65%	related entity	176	7,24%	related entity

## 7.3. FINANCIAL REVENUES / EXPENDITURE (NET)

	31.12.2017 BGN '000	31.12.2016 BGN '000	Change (BGN '000)	Change (%)
Financial expenses	-160	-64	-96	150,00%
Financial income	11	17	-6	-35,29%
<b>Financial revenues / expenditure (net)</b>	<b>-149</b>	<b>-47</b>	<b>-102</b>	<b>217,02%</b>

For the reporting period financial revenues / expenses (net) of Sirma Group Holding increased by 102 thousand leva or 217.02% over the previous period.

## 7.4. ASSETS

The total assets of Sirma Group Holding JSC at the end of 2017 are 7,402 thousand leva (10.22%) higher than their value at the end of 2016.

Assets	31.12.2017 BGN '000	31.12.2016 BGN '000	Change (BGN '000)	Change (%)
<b>Non-current assets</b>				
Intangible assets	33	1787	(1 754)	-98,15%
Property, plant and equipment	427	550	(123)	-22,36%
Expenses for acquisition of fixed assets	5 103	0	5 103	n/a
Investments in subsidiaries	56 392	55 414	978	1,76%
Investments in associates	214	214	-	0,00%
Investment property	6 682	5 301	1 381	26,05%
Investments in joint ventures	7	7	-	0,00%
Deferred tax assets	12	11	1	9,09%
<b>Non-current assets</b>	<b>68 870</b>	<b>63 284</b>	<b>5 586</b>	<b>8,83%</b>



Assets	31.12.2017	31.12.2016	Change	Change
Current assets	BGN '000	BGN '000	(BGN '000)	(%)
Inventories	29	0	29	n/a
Trade receivables	1 515	7	1 508	21542,86%
Receivables from related parties	8 475	7 604	871	11,45%
Other receivables	336	91	245	269,23%
Prepaid expenses	7	9	(2)	-22,22%
Cash and cash equivalents	604	1 439	(835)	-58,03%
<b>Current assets</b>	<b>10 966</b>	<b>9 150</b>	<b>1 816</b>	<b>19,85%</b>

## 7.5. EQUITY

Equity and liabilities	31.12.2017	31.12.2016	Change	Change
	BGN '000	BGN '000	(BGN '000)	(%)
<b>Equity</b>				
Main / Share Capital	59 361	59 361	-	0,00%
Treasury shares	-475	-262	(213)	81,30%
Share premium	5 462	5 483	(21)	-0,38%
Reserves	311	147	164	111,56%
Retained earnings / (Accumulated loss) from previous years	2 038	1 170	868	74,19%
Current financial result	2 809	1 643	1 166	70,97%
<b>Total equity</b>	<b>69 506</b>	<b>67 542</b>	<b>1 964</b>	<b>2,91%</b>

For the reporting period the share capital increased by 1 964 thousand leva compared to the previous period. In execution of the decisions of the regular General Meeting of Shareholders, Sirma Group Holding has purchased 474 724 own shares.

The board of directors believes in the development of Sirma Group Holding and the increase of the market value of the shares in the future and therefore decided to purchase these shares at a relatively low price. There is no new issue of shares in 2017.

## 7.6. LIABILITIES

The amount of the liabilities of Sirma Group Holding at the end of 2017 is 5,438 thousand leva (111.16%) higher than their value at the end of 2016.

Non-current liabilities	31.12.2017	31.12.2016	Change	Change
	BGN '000	BGN '000	(BGN '000)	(%)
Provisions	10	13	(3)	-23,08%
Long-term loans	1 870	437	1 433	327,92%
Finance lease liabilities	114	158	(44)	-27,85%
Long-term payables to related parties	141	316	(175)	-55,38%
Deferred income and financing	81	136	(55)	-40,44%
Deferred tax liabilities	60	66	(6)	-9,09%
<b>Non-current liabilities</b>	<b>2 276</b>	<b>1 126</b>	<b>1 150</b>	<b>102,13%</b>

Current liabilities	31.12.2017	31.12.2016	Change	Change
	BGN '000	BGN '000	(BGN '000)	(%)
Provisions	56	36	20	55,56%
Pension obligations to the staff	36	97	(61)	-62,89%
Short-term loans	4 393	73	4 320	5917,81%
Finance lease liabilities	42	41	1	2,44%
Trade and other payables	41	1 064	(1 023)	-96,15%
Short-term payables to related parties	3 168	2 292	876	38,22%
Tax obligations	251	96	155	161,46%
Deferred income and financing	55	55	-	0,00%
Other liabilities	12	12	-	0,00%
<b>Current liabilities</b>	<b>8 054</b>	<b>3 766</b>	<b>4 288</b>	<b>113,86%</b>



Information on loans received and granted to the issuer or its subsidiary:

Loans Received:

Recipient of credit	In Bank	Type of loan	Currency	Remaining obligation to 31.12.2017 (BGN '000)	Interest rate	End date of the contract	Collateral
Sirma Group Holding JSC	Eurobank Bulgaria	overdraft	BGN	2194	2,50%	31.7.2018	Receivables Pledge of the Receivables under the Business Incubator Contract №BG161PO003-2.2.0012-C0001 / 02.02.2012; Contractual mortgage of a real estate located in Sofia, Mladost district, Tsarigradsko Shose Blvd 135, namely the 5th floor of the building
Sirma Group Holding JSC	Сосиете Женерал Експресбанк АД	overdraft	BGN	1994	2,50%	31.8.2018	Pledge of 1 392 740 registered shares of the capital of Datium AD, owned by Sirma Solutions AD
Sirma Group Holding JSC	Societe Generale Expressbank	investment	BGN	1638	3M SOFIBOR; premium 2.5%	7.4.2027	Office №1, 2, 3, 4, 5, 6, 7, 9, 11
Sirma Group Holding JSC	Unicredit Bulbank	investment	EUR	74	6 m. LIBOR EUR + 4.75%, but not less than 4.75%	25.11.2023	Office №8 , 3th floor+ pledge of receivables
Sirma Group Holding JSC	Allianz Bank Bulgaria	investment	EUR	150	3 m. EURIBOR + 4.45%	8.12.2023	Office №19; Office №20; Office №21 + pledge of receivables
Sirma Solutions	Unicredit Bulbank	overdraft	BGN	416	1 m.. SOFIBOR + 2,9%	31.5.2018	Office №19; Office №20; Office №21 + pledge of receivables
Ontotext	Unicredit Bulbank	overdraft	EUR	242	1 m. EURIBOR (but not less than 3.5%) in euro or 1 m. SOFIBOR (but not less than 2,9%) in levs	30.5.2018	Ontotext - Contracts for 391 041 GBP + 848 316 GBP;
Sirma Enterprise Systems	Unicredit Bulbank	overdraft	BGN	549	1 m. SOFIBOR + 2,9%, but not less than 2,9%	31.3.2018	Office №19; Office №20; Office №21 + pledge on receivables + contract EUR 400 000.
Sirma Solutions	Unicredit Bulbank	overdraft	EUR	790	1 m. EURIBOR + 2,9%	30.5.2018	3th Floor, 135 Tsarigradsko shose office building Sofia + pledge on receivables \$ 700,000 / annually by Sirma USA and all other receivables
Sirma Solutions	Unicredit Bulbank	overdraft	EUR	607	1 m. EURIBOR + 2,9%	30.5.2018	Another mortgage 3th floor, office building Tsarigradsko shose 135; Next mortgage Office №19; office №20; office №21 floor 4; Pledge under the terms of the Contract on receivables under Contracts concluded between Sirma Solutions AD and its clients in the total amount of 9 210 022 levs
Sirma Solutions	Sirma Group Holding JSC	Turnover	BGN	800	3,75%	31.12.2018	Unsecured
Sirma Enterprise Systems	Sirma Group Holding JSC	Turnover	BGN	3165	5%, 5.5%	31.12.2018	Unsecured
Sirma Medical Systems	Sirma Group Holding JSC	Turnover	BGN	421	5,00%	31.12.2018	Unsecured





## Loans given:

Lender	Recipient of the loan	Currency	Remaining liability as at 31.12.2017 (BGN '000)	Interest rate	End date of the contract	Collateral	Purpose of the loan
Sirma Group Holding JSC	Sirma Solutions	BGN	800	3,75%	31.12.2018	Unsecured	Turnover funds
Sirma Group Holding JSC	Sirma Enterprise Systems	BGN	3165	5%, 5.5%	31.12.2018	Unsecured	Turnover funds
Sirma Group Holding JSC	Sirma Medical Systems	BGN	421	5,00%	31.12.2018	Unsecured	Turnover funds
Sirma Group Inc.	Sirma USA	USD	15		31.12.2018	Unsecured	Turnover funds
Sirma Solutions	Sirma Media	BGN	331	10%, 7.5%, 6.5%, 4%	31.12.2018	Unsecured	Turnover funds
Sirma Solutions	Sirma ISG	BGN	107	6,50%	31.12.2018	Unsecured	Turnover funds
Sirma Solutions	Sirma Mobile	BGN	284	6,50%	31.12.2018	Unsecured	Turnover funds
EngView Systems Sofia	Sirma Group Holding JSC	EUR	72	5,00%	31.12.2018	Unsecured	Turnover funds

## 7.7. ПАРИЧНИ ПОТОЦИ

	31.12.2017 BGN '000	31.12.2016 BGN '000	Change (BGN '000)	Change (%)
Net cash flow from operating activities	(163)	(410)	247	-60,24%
Net cash flow from investing activities	(5 617)	(4 843)	(774)	15,98%
Net cash flow from financing activities	4 945	(189)	5 134	-2716,40%
Net change in cash and cash equivalents	(835)	(5 442)	4 607	-84,66%
Money and cash equivalents at the beginning of the year	1 439	6 881	(5 442)	-79,09%
Cash and cash equivalents at the end of the year	604	1 439	(835)	-58,03%

The Company has no liquidity problems and operates with the available resources while maintaining a low level of indebtedness for the period under review.



## 7.8. INDICATORS AND COEFFICIENTS

Over the past financial period, the company has realized the following financial results:

(The indices and the coefficients have been calculated according to the instructions of BSE)

Indicators	31.12.2017 BGN '000	31.12.2016 BGN '000	Delta	
			(Abs.)	(%)
Revenue from operating activities	5 735	4 171	1564,00	37,50%
Cost of sales	(2 392)	(2 225)	-167,00	7,51%
Gross profit / loss	3 343	1 946	1397,00	71,79%
Other operating costs	( 174)	( 163)	-11,00	6,75%
Operating profit / loss	3 169	1 783	1386,00	77,73%
Financial income	11	17	-6,00	-35,29%
Financial costs	( 160)	( 64)	-96,00	150,00%
Profit / loss before tax expense	3 020	1 736	1284,00	73,96%
Tax costs	( 211)	( 93)	-118,00	126,88%
Net profit / loss	2 809	1 643	1166,00	70,97%
Dividend	594	0	594,00	n/a
Cash and cash equivalents	604	1 439	-835,00	-58,03%
Inventories	29	0	29,00	n/a
Short-term assets	10 966	9 150	1816,00	19,85%
Total amount of assets	79 836	72 434	7402,00	10,22%
Average arithmetic total asset value for 5 quarters	75 099	70 370	4728,40	6,72%
Current liabilities	8 054	3 766	4288,00	113,86%
Debt	6 419	709	5710,00	805,36%
Liabilities (borrowed funds)	10 330	4 892	5438,00	111,16%
Equity	69 506	67 542	1964,00	2,91%
Equity averaged 5 quarters	68 184	66 646	1538,20	2,31%
Turnover capital	2 912	5 384	-2472,00	-45,91%
Number of shares at the end of the period (in thousands)	59 361	59 361	0,00	0,00%
Gain / loss minority interest	107	39	68	174,36%
Interest expenses	1,085	1,1795	-0,0945	-8,01%
Weighted average price of last trading session	1,088	1,189	-0,101	-8,49%



Показатели	31.12.2017	31.12.2016	Delta	
			(Abs.)	(%)
EBITDA	2 845	1 401	1444	103,07%
DEPRITIATION	( 324)	( 382)	58	-15,18%
EBIT	2 628	1 058	1570	148,39%
FIN/INVEST NET	( 149)	( 47)	-102	217,02%
EBT	3 020	1 736	1284	73,96%
ROA	0,0352	0,0227	0,0125	55,12%
ROA(BSE)	0,0374	0,0233	0,0141	60,20%
Debt/EBITDA Ratio	2,2562	0,5061	1,7502	345,84%
Quick Ratio	1,3580	2,4296	-1,0717	-44,11%
ROE (BSE)	0,0412	0,0247	0,0165	67,11%
ROE	0,0412	0,0247	0,0165	67,11%
EBITDA	0,1486	0,0724	0,0762	105,19%
<b>Profitability ratios</b>				
Gross profit margin	0,5829	0,4666	0,1164	24,94%
Operating profit margin	0,5526	0,4275	0,1251	29,26%
Net profit margin	0,4898	0,3939	0,0959	24,34%
<b>Coefficients for assets and liquidity</b>				
Assets turnover ratio	0,0765	0,0595	0,0170	28,56%
Assets turnover ratio (BSE)	0,0764	0,0593	0,0171	28,84%
Operating cycle	1,9694	0,7747	1,1947	154,22%
Current ratio	1,3616	2,4296	-1,0681	-43,96%
Quick ratio	1,3580	2,4296	-1,0717	-44,11%
Cash ratio	0,0750	0,3821	-0,3071	-80,37%
<b>Odds per share</b>				
P/S ratio	11,2305	16,7865	-5,5560	-33,10%
P/E ratio	22,9287	42,6149	-19,6862	-46,20%
P/B ratio	0,9266	1,0366	-0,1100	-10,61%
Revenue per share	0,0966	0,0703	0,0263	37,50%
Earnings per share	0,0473	0,0277	0,0196	70,97%
Book value of equity per share	1,1486	1,1227	0,0259	2,31%
<b>Dividends ratio</b>				
Divident payout ratio	0,2115	0,0000	0,2115	n/a
Earnings retention ratio	0,7885	1,0000	-0,2115	-21,15%
Divident per share	0,0100	0,0000	0,0100	n/a
<b>Development Ratios</b>				
Revenue growth	0,3750	1,3544	-0,9795	-72,32%
Gross profit growth	0,7179	10,9723	-10,2544	-93,46%
Assets growth	0,1022	0,0554	0,0468	84,62%
<b>Leverage Ratios</b>				
Debt/taotal assets	0,0855	0,0101	0,0754	748,36%
Debt/capital	0,0860	0,0105	0,0755	717,40%
Debt/equity	0,0941	0,0106	0,0835	784,94%
Total assets/equity	1,1014	1,0559	0,0455	4,31%
Market value of the company	64585	70580	-5995,46	-8,49%



## 7.9 RELATED PARTY TRANSACTIONS

The types of connectivity are: 1 Subsidiary  
2 A company under common control with key management personnel  
3 Other related parties

### Purchases

Type	Type of Connectivity	Description	31.12.2017	31.12.2016
			BGN '000	BGN '000
Materials	2	Electricity	0	8
Materials	1	Inventory	0	1
Materials	1	Computer Components	1	1
Materials	2	Office supplies	0	1
Materials	1	Office supplies	3	1
Materials	1	Toner	0	2
External services	1	Fees and commissions	1	0
External services	1	Others	0	11
External services	1	Maintenance and repair of the office	11	0
External services	2	Internet	17	9
External services	1	Consulting services	7	168
External services	3	Advertising and marketing	32	0
External services	1	Repair of Comp. and office equipment	0	0
External services	1	Software services	3 177	204
Interest on deposits	1	Interest expense on deposits	7	0
Interest on loans	2	Interest expense on loans	3	0
Interest on loans	1	Interest expense on loans	12	7
Currency operations	1	Expenditure on currency operations	34	0
<b>TOTAL</b>			<b>3 305</b>	<b>412</b>

### Sales

Type	Type of Connectivity	Description	31.12.2017	31.12.2016
			BGN '000	BGN '000
Services	1	Subscriptions	0	20
Services	2	Subscriptions	0	7
Services	2	Administrative, accounting services	132	118
Services	1	Administrative, accounting services	709	967
Services	3	Administrative, accounting services	20	20
Services	1	Consulting services	133	0
Services	1	Consumables	23	7
Services	1	Rental software license	0	868
Services	2	Cabinet rental	13	0
Services	2	Rentals	54	14
Services	1	Rentals	250	214
Services	1	Rentals	1	1
Services	1	Revenue from the sale of licenses	625	0
Services	2	Technical Support	14	14
Services	1	Technical Support	29	28
Interest on loans	1	Interest income on loans - investment activity	204	261
Interest on loans	3	Interest income on loans - investment activity	34	31
Interest on loans	2	Interest income on loans - investment activity	13	0
<b>TOTAL</b>			<b>2 256</b>	<b>2 569</b>

## 8/ PERSONNEL AND ECOLOGY

Sirma Group Holding maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures for separate collection of waste, minimization, recovery and recycling of municipal waste. In 2017, the use of plastic cups stopped, and they were replaced with porcelain and glass.

The Company believes that its employees play a key role in the development of its business and the overall corporate goals and therefore pays special attention to the development of a common human resources management

strategy and policies. Sirma Group Holding's policies in this regard are aimed at stimulating the responsibility and motivation of the staff to fulfill the assigned tasks and objectives.

The company and the companies in the group apply certain selection criteria and consider that they have an ambitious team of professionals capable of pursuing the strategic and operational objectives. Sirma Group Holding invests in various training programs for its employees and provides its employees with opportunities for professional development.



The structure of the personnel of Sirma Group Holding has the following dynamics:

Sirma Group Holding JSC	2017	31.12.2016
	Average number of employees	Average number of employees
Employment contract	24	27
Contract for management and control	8	8
<b>TOTAL</b>	<b>32</b>	<b>35</b>

## DESCRIPTION OF ALL AGREEMENTS FOR THE PARTICIPATION OF THE EMPLOYEES IN THE CAPITAL OF THE COMPANY.

There are no arrangements for the participation of employees in the capital of the Company.

# 9/ RISK FACTORS

## 9.1 System Risks

The general risks stem from possible changes in the overall economic system and, in particular, a change in the conditions of the financial markets. They can not be diversified, as all economic entities in the country are exposed to them.

Twenty-five years after the end of the planned economy in Bulgaria, a policy of economic reforms and stabilization aimed at the imposition and functioning of the principles of a free market economy is being pursued. As a result, business entities in Bulgaria have a limited history of activity in free market conditions. In this regard, Bulgarian companies, compared to Western companies, are characterized by a lack of experience in the market economy and limited capital resources, with which to develop their business. Bulgaria also has limited infrastructure to maintain the market system.

In Bulgaria, as in most transition countries, there is a trade deficit and a current account deficit. Our country is an importer of crude oil and energy resources. In this regard, increases in oil prices and energy resources reduce the competitiveness of the Bulgarian economy and, in addition, its dependence on oil and energy imports further exposes the economy to currency risks from unfavorable changes in the USD exchange rate against the Bulgarian Lev. The capital gains from privatization are expected to gradually decrease as the privatization program is completed.

### 9.1.1. Economic Growth

The interaction between economic growth and external indebtedness of the country has a direct impact on the formation and change of market conditions and the investment climate. Official statistics show real GDP and GDP growth per capita in recent years, which are in line with the government's development agenda.

According to published information from NSI, after the introduction of the currency board system in 1997, Bulgaria achieved macroeconomic stability and good indicators for economic development.

Delayed economic growth, not only in Bulgaria but also in other countries where the Company realizes its output, means reduced activity on the part of economic operators, where there is also a reduced level of investment in general and in particular in software solutions. In this respect, lower economic growth adversely affects the

Company's activity and would prevent the future plans from being realized according to predefined parameters.

### 9.1.2. Political Risk

The political risk is the likelihood of a change in government, or a sudden change in its policy, the emergence of internal political turmoil and unfavorable changes in European and / or national legislation, resulting in a negative change in the environment in which local businesses operate, and investors to suffer losses.

The political risks for Bulgaria at international level are related to the commitments made to implement serious structural reforms in the country as an equal member of the EU, increasing the social stability of the inefficient spending on the one hand, as well as the severe destabilization of the countries The Middle East, the increasing threats of terrorist attacks in Europe, refugee waves, and the volatility of key countries in the immediate vicinity of Bulgaria.

Bulgaria, as well as the other EU member states in the region, continues to be seriously affected by the common European problem of the intensive Middle East refugee flow.

Other factors that also affect this risk are possible legislative changes, particularly those that concern the economic and investment climate in the country.

### 9.1.3. Credit Risk

The credit risk of the country is related to the ability of the state to repay its obligations regularly. In this respect, Bulgaria is constantly improving its position on the international debt markets, which facilitates the access of state and economic agents to external financing. The most important effect of the credit rating improvement is the lowering of loan risk premiums, which leads to more favorable interest rates (on equal terms). For this reason, the potential increase in the country's credit rating would have a beneficial impact on the Company's activity and more precisely on its financing. On the other hand, lowering the credit rating of Bulgaria would have a negative impact on the cost of financing the Company unless its loan agreements are fixed-rate. The determination and measurement of this risk is carried out by specialized international credit agencies.

At the date of this document, the credit rating of the Republic of Bulgaria is as follows:





- Standard & Poors - Long-term BB +, short-term C, stable outlook both in foreign and local currencies;
- Moody's - Long-term Baa2 with a stable outlook for foreign and local currencies;
- Fitch Ratings - foreign currency long-term BBB- with stable outlook, short-term F3 with stable outlook and local currency long-term BBB with stable outlook.

Bulgaria continues to fund its needs under relatively good credit conditions, given the reduced long-term ratings. The quantitative easing policy of the European Central Bank implies the maintenance of historically low interest rates in Europe, from which it would stimulate the attraction of credit resources from all economic subjects, including the Company.

#### 9.1.4. Currency Risk

Exposure to the currency risk is the dependence and effects of exchange rate fluctuations. The systemic currency risk is the probability of a possible change in the currency regime of the country (The Currency Board), which would either lead to a depreciation of the Lev or a rise in the Lev against foreign currencies. The currency risk will have an impact on companies with considerable market share, whose payments are made in a currency other than the Lev and the Euro. Since the Bulgarian Lev is fixed to the Euro in EUR 1 = BGN 1.95583 and the Bulgarian National Bank is obliged to maintain a level of Bulgarian Levs in circulation equal to the foreign currency reserves of the bank, the risk of depreciation of the Lev against the European currency is minimal and consists in the eventual early elimination of the Currency Board in the country. This seems unlikely at this stage as the expectations are that the Currency Board will be abolished when the Euro is adopted in Bulgaria as an official legal tender. Theoretically, the currency risk could rise when Bulgaria joins the second stage of the European Monetary Mechanism (ERM II). This is a regime in which the country has to maintain the exchange rate against the Euro within +/- 15% against the central parity. In practice, all countries currently in the mechanism (Denmark, Estonia, Cyprus, Lithuania, Latvia, Malta) are experiencing fluctuations that are substantially lower than the  $\pm 15\%$  allowed. The fixed exchange rate of the Lev to the Euro does not eliminate the risk of unfavorable movements of the Euro against other major currencies (US Dollar, British Pound, Swiss Franc) on the international financial markets, but at present the company does not consider that such a risk would have a significant impact on its activities. The Company may be affected by the currency risk depending on the type of currency of its revenue and the type of currency of potential borrowings of the company.

#### 9.1.5. Interest Rate Risk

The interest rate risk is related to possible negative changes in the interest rates established by the financial institutions in the Republic of Bulgaria.

At its monetary policy meeting on 14 December 2017, the Governing Council of the ECB concluded that a high degree of non-restrictiveness of monetary policy is still needed to ensure that the return of inflation to levels below, but close to 2 %. The information gained since the last monetary policy meeting in the end of October, including the new Eurosystem expert projections, show a strong rate of economic recovery and a significant improvement in the growth outlook. According to the Governing Council's assessment, strong cyclical inertia and a significant reduction of unused production capacities give rise to greater confidence that inflation will move closer to its target level. At the same time, the pressure on domestic prices remains generally weak and persistent signs of a sustained upward trend are not yet showing.

Therefore, the Governing Council concluded that a high degree of monetary stimulus is still necessary in order for core inflationary pressure to continue to generate and support the dynamics of overall inflation over the medium term. Continued monetary support is provided through additional net purchases in accordance with the decision taken by the Governing Council at the October monetary policy meeting, through the significant volume of assets acquired and the forthcoming reinvestment and through the interest rate guidance.

The key interest rates set by the BNB for the period 31.12.2016 - 31.12.2017 is 0.00%

#### 9.1.6. Inflation Risk

The Inflation Risk is a general price increase whereby money is depreciated and there is a likelihood of loss from households and firms.

According to data of NSI, the consumer price index for October 2017 compared to September 2017 is 100.6%; monthly inflation is 0.6%. Inflation from the beginning of the year (October 2017 versus December 2016) was 1.9% and annual inflation in October 2017 compared to October 2016 was 2.5%. The average annual inflation rate for the period November 2016 - October 2017 compared to November 2015 - October 2016 is 1.5%. The Harmonized Index of Consumer Prices for October 2017 versus September 2017 is 100.1%, ie. monthly inflation is 0.1%. Inflation from the beginning of the year (October 2017 versus December 2016) was 0.8% and annual inflation in October 2017 compared to October 2016 was 1.5%. The average annual inflation rate for the period November 2016 - October 2017 compared to November 2015 - October 2016 is 0.8%.

The consumer price index for November 2017 compared to October 2017 was 100.4%, ie. monthly inflation is 0.4%. Inflation from the beginning of the year (November 2017 versus December 2016) was 2.4% and annual inflation in November 2017 compared to November 2016 was 3.0%. The average annual inflation rate for the period December 2016 - November 2017 compared to December 2015 - November 2016 is 1.8%.

The Harmonized Index of Consumer Prices for November 2017 compared to October 2017 was 100.3%; monthly inflation is 0.3%. Inflation from the beginning of the year (November 2017 versus December 2016) was 1.1% and annual inflation in November 2017 compared to November 2016 was 1.9%. The average annual inflation rate for the period December 2016 - November 2017 compared to December 2015 - November 2016 is 1.0%.

The consumer price index for December 2017 compared to November 2017 was 100.4%, ie. monthly inflation is 0.4%. The annual inflation rate for December 2017 compared to December 2016 was 2.8%. The average annual inflation for January - December 2017 compared to January - December 2016 was 2.1%.

The Harmonized Index of Consumer Prices for December 2017 compared to November 2017 is 100.7%, ie. monthly inflation is 0.7%. The annual inflation rate for December 2017 compared to December 2016 was 1.8%. The average annual inflation for January - December 2017 compared to January - December 2016 is 1.2%.



Inflation for the period 01.01.2017 - 31.12.2017 is the following:

January 2017 r. - 1.3%  
February 2017 r. - 0.0%  
March 2017 r. - -0.5%  
April 2017 r. - 0.7%  
May 2017 r. - -0.3%  
June 2017 r. - -0.5%  
July 2017 r. - 0.3%  
August 2017 r. - 0.1%  
September 2017 r. - 0.2%  
October 2017 r. - 0.6%  
November 2017 r. - 0.4%  
December 2017 r. - 0.4%

#### 9.1.7. Risk from unfavorable changes in tax and other legislation

The taxes paid by Bulgarian merchants include taxes at source, local taxes and fees, corporate income tax, value added tax, excise duties, export and import duties and property taxes. The tax system in Bulgaria is still developing. This may result in contradictory tax practices, both at state and local level.

Investors should also take into account that the value of the investment in shares may be adversely affected by changes in the current tax legislation, including its interpretation and application. In addition, tax legislation is not the only one that can undergo changes, and these changes adversely affect the Company's business. Although the bulk of Bulgarian legislation is already harmonized with EU law, the application of the law is subject to criticism by the European partners in Bulgaria. Judicial and administrative practice remains problematic: the Bulgarian courts are not able to effectively resolve disputes over property rights, breaches of legal and contractual obligations, etc., resulting in a systemic regulatory risk being relatively high.

Unfavorable changes to tax and other laws would lead to a worsening of the general conditions in which the Company operates, from wherever its future results may deteriorate. In particular, the increase in the corporate income tax and other taxes would reduce the ultimate disposable profit for new investments and / or the distribution of dividends to its shareholders.

#### 9.1.8. Force Majeure Risks

Force majeure events such as natural disasters, sabotage, war and terrorist acts, and others may lead to unpredictable changes in investor and interest in the market for all shares, as well as, in particular, the shares of Sirma Group Holding. Some force majeure events do not provide for the possibility of insurance.

Force majeure events could seriously affect the Company's performance by reducing its ability to conduct normal business activities and cause an increase in some cost items.

#### 9.2. Non-system Risks

Non-system risks are associated with the overall investment risk specific to the firm and the industry itself. Non-system risks can be divided into two types: sectoral risk related to the uncertainty in the development of the sector as a whole and general business risk - arising from the specifics of the particular company.

#### 9.2.1. Industry Risks

The activity of the Company and of the companies within Sirma Group are exposed to various risks, including: 1) risks typical of the Information and Communication Technology (ICT) industry and 2) risks specific to the Company itself. Revenue and profit of the Company may be adversely affected by a number of factors: the financial market situation and the information and communication technology market; the ability of the Company to ensure effective management, assessment of the different risks and economic feasibility of individual transactions, the economic climate in the country and others.

#### 9.2.2. Specific Company Risk

The company risk is related to the nature of the Company's business, as for every firm it is important that the return on the invested funds and resources is consistent with the risk associated with the investment.

The main company risk for Sirma Group Holding JSC is related to the possibility of reduction of the solvent demand for the products and services offered by the Group, as well as changes in the terms of sale of those products and services. The company risk may have an impact on the growth of service and software solutions development contracts. Uncertainty can be measured by the variability of revenue earned over time. This means that the more volatile the revenues of a company, the greater the uncertainty of the company to realize a positive financial result, i.e. the risk for the investors, respectively the creditors, will be higher.

#### 9.2.3. Operation Risk

Operational risks are related to the management of the company and can be expressed in the following:

- Making erroneous decisions for the ongoing management of the investment and liquidity of the company by the management staff;
- the inability of the management team to start the implementation of planned projects or lack of suitable personnel for this;
- key employees leaving and impossibility to recruit new ones;
- the risk of excessive spending on management and administration, leading to a reduction in the overall profitability of the company.

Various mechanisms will be used to optimize and manage this risk, including the following:

- sound investment policy;
- optimizing the structure, quality and return on assets of the Company;
- protection against unfavorable and undesirable external factors and attacks, etc.

#### 9.2.4. Intellectual Property Protection

The protection of the intellectual property of the Group is crucial to its success. It uses a variety of tools to identify and control potential risks and to protect its intellectual property. These measures include application for patents, trademarks, and other brands and copyrights to prevent infringement of copyright and trademarks. Despite these efforts, the Group may not be able to prevent third parties from using or selling without permission what it regards as its own technology. All these measures provide only limited protection and its rights could be challenged or otherwise affected. Any intellectual property may be vulnerable to disclosure or misuse by employees, partners or third parties. Third countries can independently develop



technologies that are substantially equivalent to or better than the technology of the Company. In addition, a third party may reengineer or otherwise obtain and use technology and information that the Group considers to be its own. In this regard, the Company may not be able to protect its proprietary rights against unauthorized copying or third party use, which could have an adverse effect on the competitive and financial situation and lead to a decline in sales. In addition, the laws and courts of some countries may not offer effective protection of intellectual property rights.

#### **9.2.5. Risk of concluding insider deals at prices differing from the market ones**

The company is part of an economic group. The risk of engaging in transactions with Group entities, whose conditions differ from market at the date of the transaction is eliminated to the extent that the Company seeks to maintain a transparent policy regarding its relations and the treatment of related companies. As far as there are transactions in the economic group, they are concluded under standard market conditions at the moment of transaction and do not favor any of the parties.

#### **9.2.6. Risk of asset depreciation**

The impairment risk of assets is related to the possibility of reducing the carrying amount of the Company's assets. Possible impairment of tangible and / or intangible fixed assets would result in the need to account for an impairment loss. This, in turn, may worsen the Company's future financial performance as well as lead to a final negative financial result for an annual period. This in turn leads to the risk of not being able to distribute dividends to existing shareholders at this future moment, as well as a possible decrease in the market price of a shares of the Company due to the deteriorated financial indicators

#### **9.3. Risk factors, characteristic of share traded on the Stock Exchange**

The risk of investing in securities is linked to the uncertainty and the inability to accurately predict future effects and the impact on the expected return on the investment made.

The main risk and uncertainty for the shareholders of Sirma Group Holding JSC is the probability that the investments in the company's shares will not retain its value, nor generate the expected return on them, due to a decrease in the price of the shares or a lack of other income (dividends) from them.

Sirma Group Holding JSC informs potential investors that investing in shares is associated with certain risks. Investors should carefully read and understand the risks associated with investing in shares of the current issue before making an investment decision.

Sirma Group Holding JSC seeks to maintain a low risk profile by maintaining low levels of financial and operational leverage, a high level of operational efficiency, the introduction of strict rules and procedures in the management of the activity and strict control over their compliance, diversification of the client base and suppliers.

The above makes the company resistant to external negative shocks, but nevertheless has significant risks for its business that could negatively affect the company's results.

##### **9.3.1. Price Risk**

The changes in the price of the shares of Sirma Group Holding JSC can be created both from the fundamental state of the Company - current and expected results from the activity and financial results as well as from the

economic and market conditions in Bulgaria and from the market and economic conditions in the world economy.

Shareholders should keep in mind that events that may cause sudden fluctuations in market prices of shares that have previously occurred on the Bulgarian capital market and in international financial markets may occur and that such fluctuations are likely to affect unfavorable price movements of the shares of Sirma Group Holding JSC.

The market value of the shares will be determined on the basis of supply and demand, and the share price may increase or decrease. These "price fluctuations" can cause a security to cost at a certain point much less than the value at which it is purchased. This price dynamic is particularly typical for the ordinary stock market, whose stock prices may be subject to sharp fluctuations as a result of publicly disclosed information about the Company's financial performance, changes in legislation and other material events.

A significant number of sales of the shares of Sirma Group Holding JSC for a certain period of time may have an adverse effect on the maintenance of their achieved price level. Such an event would result from a significant excess of the sellers of those shares over buyers in that period. At this point in time, the Issuer or a third party does not commit to maintaining a particular price level and a significant number of sales may lead to a decrease in that level.

The Company does not guarantee to investors that the price of its shares will remain stable and / or increase its value in the future. At the moment of preparation of this document, Sirma Group Holding JSC or, to the best of its knowledge, other persons, do not intend to purchase shares of the Company in order to preserve and / or increase the market price of the Company's shares after the increase of capital.

##### **9.3.2. Liquidity Risk**

Liquidity risk is directly related to the liquidity of the securities market itself and expresses the potential for short-term purchase or sale of the securities on the secondary market. The liquidity of the issue depends on the number of investors who will be interested in investing in the issue. The liquidity risk of the shares will also depend on the development of the equity market in terms of the volume and variety of instruments offered, the issuer's financial position, the ability of the local capital market to attract new investors,

Investors should keep in mind that the BSE is significantly smaller and less liquid than the securities markets in most developed market economies. Thus, for the shareholders of Sirma Group Holding JSC there is no guarantee that the listing of the shares of the Company on the BSE will guarantee their active trading and sufficient liquidity.

##### **9.3.3. Inflation Risk**

The manifestation of the inflationary risk for the shareholders of Sirma Group Holding JSC would arise in cases when the income from the shares (increase in the price and / or received dividends) were lower than the inflation for the investment period. The inflation processes leads to a decrease in the real yield that investors receive.

Although in the long run equity yields usually outweigh the inflationary processes in Bulgaria and other countries with a developed market economy, there is no guarantee for the investors in the shares of Sirma Group Holding JSC that their investment in shares of the Company will represent a real protection against inflation.



#### 9.3.4. Dillution Risk

Pursuant to the Articles of Association of the Company no limitations on the maximum amount of future issues of shares are envisaged. For this reason, shareholder participation may be reduced as a result of a public offering if they do not exercise their rights and do not subscribe a proportionate share of the new shares. In the event that, as a result of a future public offering, the number of issued shares of the Company increases at a faster rate than the amount of the assets of the Company, it is possible to decrease the value of the assets per share of the Company.

#### 9.3.5. Currency Risk

This current issue is denominated in BGN. Currency risk of the investment exists for investors whose funds are denominated in US dollars or currencies other than Lev and Euro, due to the constant exchange rate movements. Investors who take a currency risk in the purchase of the current issue would increase or reduce the effective return on their investment as a consequence of strengthening or weakening the BGN and EUR exchange rate against the currency in which the investor's funds are denominated.

Stability and high confidence in the credibility of the Currency Board in the country, as well as the relatively stable positions of the euro on international currency

markets, reduce the existence of the currency risk to minimum levels.

#### 9.3.6. Lack of an annual dividend payment guaranty

The financial results of the company depend on many factors, including the skills and professionalism of the management team, the development of the market in which the company operates, the economic development of the country and the region, etc. There is a risk for investors due to the lack of a guarantee for annual dividends payment.

#### 9.3.7. Risk of change in the tax treatment of investments in shares

The risk of changing in the taxation of investments in securities is linked to the change in the current taxation regime for such instruments. The latter may be considered favorable, as capital gains are tax-exempt. Changes in capital gains tax, as well as other potential changes in the taxation of securities' investments, may have a negative impact on the final realized net result by an investor.

#### 9.3.8. Risk factors included in the Registration document

The specific risks associated with the core activity of Sirma Group Holding JSC, as well as the general risks that may have an impact on its activities, are detailed on pages of the Registration document, Section "Risk Factors".

## 10/ INFORMATION ABOUT EVENTS AND INDICATORS WITH INCREASED NATURE OF THE COMPANY, HAVING A SIGNIFICANT EFFECT ON THEIR ACTIVITY AND THEIR INCOME AND EXPENDITURE; EVALUATION OF THEIR IMPACT ON RESULTS IN THE CURRENT YEAR.

There are no events and indicators with an unusual nature for the company that have a significant impact on its operations and its realized revenues and expenses; assessing their impact on results during the current year.

## 11/ INFORMATION ABOUT OUT OF THE BALANCE SHEET TRANSACTIONS - NATURE AND BUSINESS PURPOSE, FINANCIAL IMPACT OF THE TRANSACTION ON ACTIVITY IF THE RISKS AND BENEFITS OF THESE TRANSACTIONS ARE ESSENTIAL FOR THE COMPANY AND THE DISCLOSURE OF THIS INFORMATION IS ESSENTIAL FOR ASSESSING THE FINANCIAL POSITION OF THE COMPANY.

There are no deals out of the balance sheet of the Company.



## 12/ ANALYSIS AND FINANCIAL EVALUATION OF THE FINANCIAL RESOURCES MANAGEMENT POLICY WITH THE POSITION OF OPPORTUNITIES FOR THE SERVICE OF THE OBLIGATIONS, THE EVENTUAL THREATS AND MEASURES WHICH THE COMPANY WAS PREVENTED OR PROVIDED TO TAKE FOR THE PURPOSE OF REMOVING THEM.

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The management of financial resources is subject to the requirement of maximizing efficiency while respecting payment deadlines agreed with both suppliers and customers. This means a predominant use of own funds, resulting in lower financial costs and interest costs. On the other hand, there is a significant reserve of undrawn loans that can serve both current and investment costs, which maintain high liquidity of payments.

The entity's ability to service obligations is expressed in terms of liquidity ratios in the description of the liquidity risk in this report. As evidenced by the values of the liquidity indicators, Sirma Group Holding JSC has no problems in meeting its obligations, both in the medium and long term. The company has regular proceeds from sale, while also using bank overdrafts, which allows it to service its obligations by successfully managing its financial resources and to properly and timely service its obligations.

## 13/ ASSESSMENT OF THE POSSIBILITIES FOR THE IMPLEMENTATION OF INVESTMENT INTENTIONS WITH THE SIGNIFICANCE OF THE AMOUNT OF EXPENDITURE AND THE EFFECTIVENESS OF THE POSSIBLE CHANGES IN THE STRUCTURE OF FINANCING THAT ACTIVITY.

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The management estimates that it is possible to realize the investment intentions declared with the prospectus for initial public offering.

## 14/ INFORMATION ABOUT OCCURRING CHANGES IN THE REPORTING PERIOD IN THE MAIN PRINCIPLES FOR THE MANAGEMENT OF THE COMPANY AND ITS ECONOMIC GROUP.

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There were no changes during the reporting period in the company's main management principles and its economic group.





## 15/ INFORMATION ABOUT THE MAIN CHARACTERISTICS OF THE FINANCIAL REPORTING PROCESSING INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN THE COMPANY.

Under Bulgarian law, the management should prepare an interim report on the operations and a financial statement for each quarter to give a true and fair view of the Company's financial position as of the end of the year, financial performance and cash flows in accordance with the applicable accounting framework. Management's responsibility also includes the implementation of an internal control system to prevent, detect and correct mistakes and false statements as a result of the accounting system's actions. In this respect, the management observes the following basic principles in its activities:

- adherence to a particular management and accounting policy disclosed in the financial statements;
- carrying out all operations in compliance with the laws and regulations; coverage of all events and operations in a timely manner, with the exact amount of the amounts in the appropriate accounting articles.

- accounts and the relevant reporting period so as to allow the financial statements to be prepared in accordance with the specific accounting framework;
- observance of the precautionary principle in the valuation of assets, liabilities, income and expenses;
- detection and termination of frauds and errors;
- completeness and regularity of accounting information;
- preparation of reliable financial information;
- adherence to international financial reporting standards and adherence to the going concern principle.

**During the reporting period, there have been no changes in the basic principles of management of SIRMA GROUP HOLDING**

## 16/ INFORMATION ON CHANGES IN MANAGEMENT AND SUPERVISORY BODIES IN THE FINANCIAL YEAR.

During the period considered, after the decision of the General Meeting of Shareholders of Sirma Group Holding, held on 15.06.2017, based on article 20 from Regulation № 48/ 20.03.2013 regarding the remuneration requirements of FSC, members of the Remuneration committee were appointed:

Georgi Parvanov Marinov – chairman

Yordan Stoyanov Nedev - member

Petar Borisov Statev- member

## 17/ ANALYSIS OF THE RELATIONSHIP BETWEEN THE FINANCIAL RESULTS ACHIEVED, REPORTED IN THE FINANCIAL STATEMENT FOR THE FINANCIAL YEAR AND EARLIER PUBLISHED PROJECTIONS FOR THESE RESULTS.

The company has not published projections of its financial performance for 2017.



## 18/ DETAILS OF THE DIRECTOR FOR CONNECTIONS WITH THE INVESTOR, INCLUDING A TELEPHONE AND ADDRESS FOR CORRESPONDENCE.

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Stanislav Tanushev

Bul. 135 Tsarigradsko shose, fl. 3

Sofia 1784

ir@sirma.com

Contact phone: +359 2 976 8310





# 19/ CHANGES IN THE PRICE OF THE SHARES OF THE COMPANY

Market capitalization - 64 584 243 levs

Price of shares:

## Историческа информация и финансови коефициенти

Финансовите коефициенти са предоставени от **X3 ANALYSES**

1 месец	3 месеца	6 месеца	1 година	Избери период
Начална цена -	1.178 BGN	2017.01.25		
Последна цена -	1.088 BGN	2017.12.29		
Максимална цена -	1.178 BGN	2017.08.11		
Минимална цена -	0.990 BGN	2017.06.14		
Процентно изменение	-7.64% ▼			
Стойностно изменение	-0.090 ▼			
Пазарна капитализация -	64 584 243 BGN	2017.12.29		

ROA	0.04	ROA cons	0.02
ROE	0.04	ROE cons	0.03
ROA/EBIT	0.06	ROA/EBIT cons	0.13
ROE/EBIT	0.06	ROE/EBIT cons	0.19
Asset turnover	0.09	Asset turnover cons	0.43
Current ratio	1.8	Current ratio cons	1.38
D/E	0.09	D/E cons	0.11



## 20/ EVENTS AFTER THE END OF THE REPORTING PERIOD

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On January 26, 2018 Sirma Group Holding JSC entered into a bank loan agreement as follows:

- Type of loan: investment credit;
- Creditor: Unicredit Bulbank AD;
- Borrower: Sirma Group Holding JSC;
- Solvency debtor and collateral in the sense of the FCAA: Sirma Solutions AD with UIC: UIC 040529004 and Sirma Enterprise Systems AD with UIC 200421236;
- Loan amount: BGN 9 780 000 (nine million seven hundred and eighty thousand levs);
- Interest rate: 3M SOFIBOR + 1.35% per annum;
- Deadline for implementation: 30.07.2018;
- Repayment deadline: 14.06.2022;
- Collateral:
  1. A pledge under the terms of the Special Pledges Act in favor of the Creditor on the commercial enterprise of Sirma Solutions AD with a carrying value of the assets as at 30.10.2017 amounting to 54 706 142.44 (fifty four million seven hundred and six thousand one hundred forty two and 0.44) levs;
  2. Pursuant to the order of the Commercial Law on the holdings of Sirma Group Holding JSC 2 443 682 ordinary, dematerialized registered voting shares with a nominal value of 10 (ten) levs each of the capital of Sirma Solutions AD;
  3. Financial collateral in the form of a pledge on all receivables, current and future, of the Borrower (s) and of the third liable persons who are legal entities in all accounts in national and foreign currency, which are held by the Bank.

The annual financial statement of Sirma Group Holding JSC was approved for publication on 12.02.2018.

CEO: 

**Tsvetan Alexiev**

